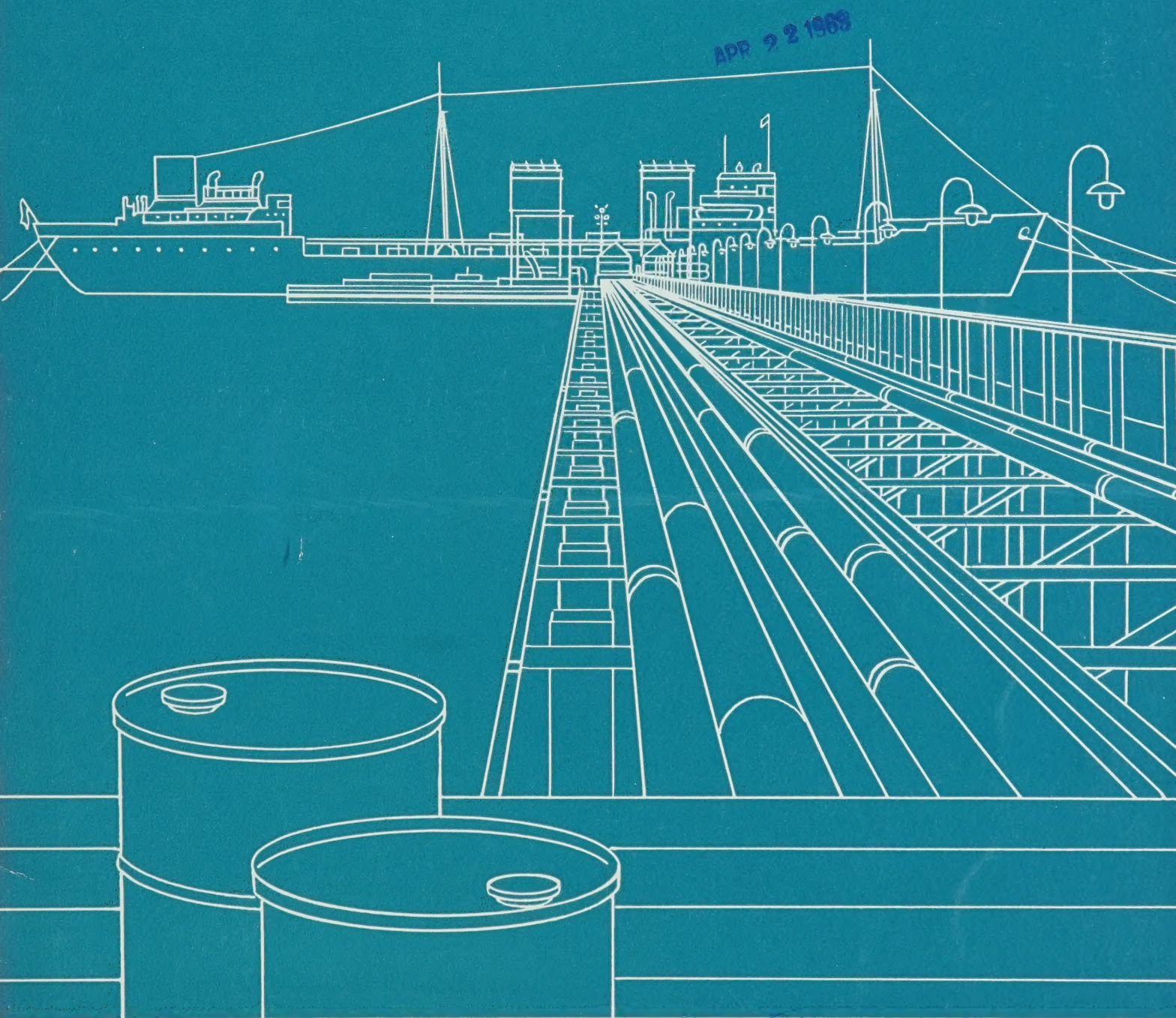


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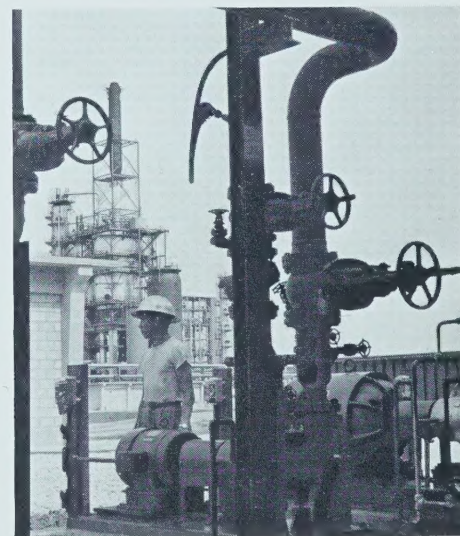
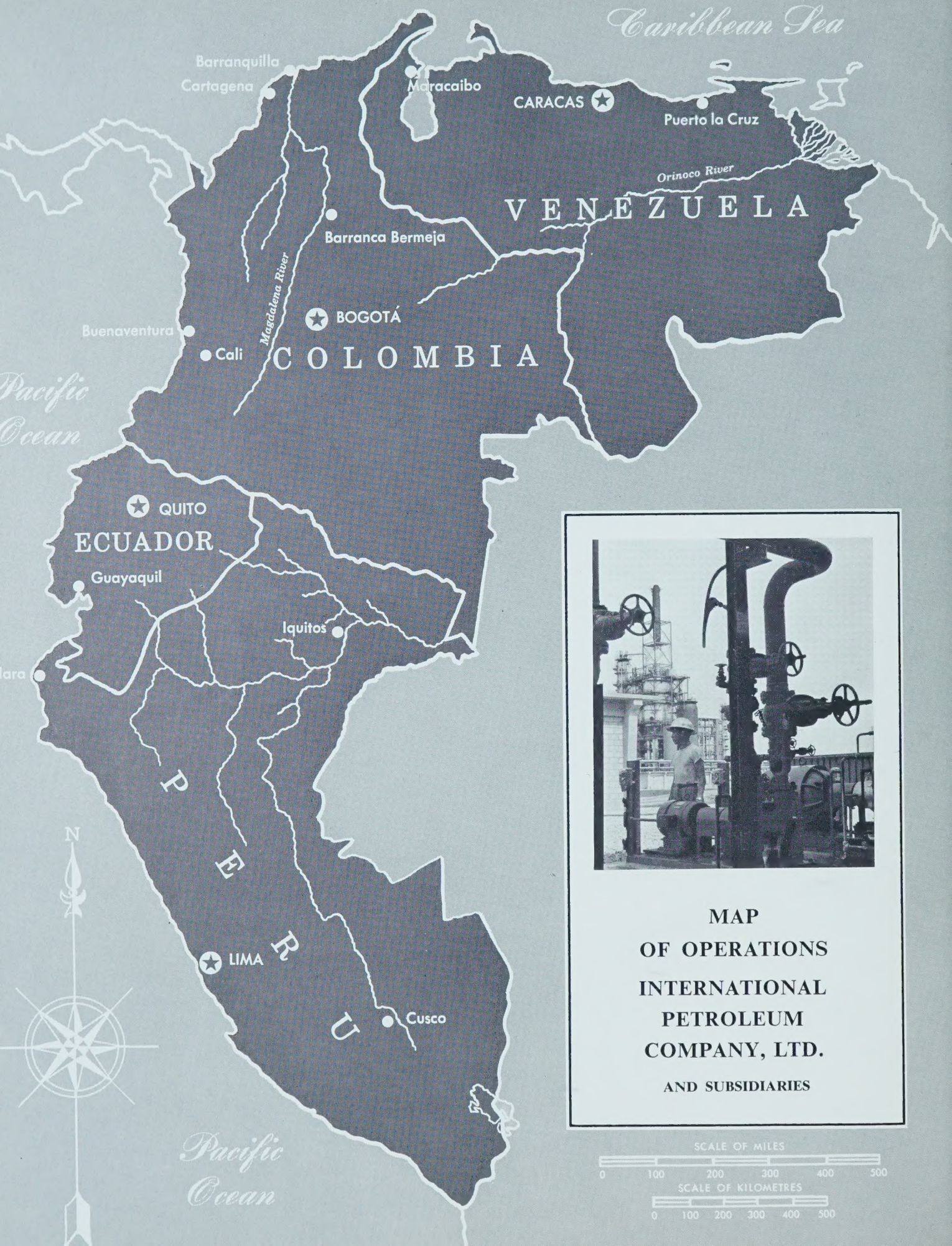
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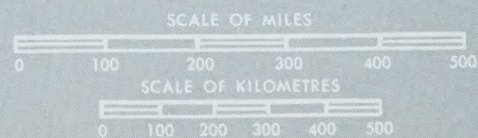
**International Petroleum Company, Ltd.**

ANNUAL  
1962  
REPORT





MAP  
OF OPERATIONS  
INTERNATIONAL  
PETROLEUM  
COMPANY, LTD.  
AND SUBSIDIARIES





# International Petroleum Company, Ltd.

*and Subsidiary Companies*

ANNUAL  
REPORT  
1962

## BOARD OF DIRECTORS

Milo M. Brisco  
Lawrence J. Brewer  
William C. Kirkpatrick  
Zeb Mayhew  
Carl G. Morrison  
Henry F. Stevenson  
Henry E. Winter

## OFFICERS

Milo M. Brisco, *President*  
Lawrence J. Brewer, *Executive Vice President*  
Zeb Mayhew, *Executive Vice President*  
Carl G. Morrison, *Vice President*  
Henry F. Stevenson, *Vice President*  
\*John E. Andrews, *Comptroller*  
Willard W. Stewart, *Treasurer*  
Quentin W. Howard, *Secretary*

## EXECUTIVE REPRESENTATIVES

Lorne A. Smith, *Lima, Peru*  
Fernando J. Espinosa, *Bogota, Colombia*  
Mark F. Nero, *Caracas, Venezuela*

\*Appointed January 31, 1963

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FINANCIAL REVIEW . . . . .	6
AUDITORS' REPORT . . . . .	9
FINANCIAL STATEMENTS . . . . .	10

### Annual Meeting

The Annual Meeting of the Shareholders  
will be held Friday, April 26, 1963  
at 11 A. M., E. D. S. T.,  
at 185 Bay Street, Toronto.

## Officers and Agents

EXECUTIVE OFFICE: 396 Alhambra Circle, Coral Gables, Florida  
CORPORATE OFFICE: 185 Bay Street, Toronto, Canada  
TRANSFER AGENT: *Montreal Trust Company*, 15 King Street W., Toronto;  
466 Howe Street, Vancouver; 511 Place D'Armes, Montreal;  
504 Main Street, Winnipeg.  
*Bankers Trust Company*, 16 Wall Street, New York 15, New York

## HIGHLIGHTS OF 1962

### FINANCIAL

	<u>1962</u>	<u>1961</u>
Net Income	\$ 26,800,000	\$ 30,400,000
Net Income per Share	1.84	2.09
Dividends Paid	17,500,000	17,500,000
Dividends Paid per Share	1.20	1.20
Working Capital	134,300,000	130,600,000
Ratio of Current Assets to Current Liabilities	3.8 to 1	3.6 to 1
Additions to Property, Plant and Equipment	29,200,000	24,300,000
Exploration, Leasing and Dry Hole Costs	7,300,000	8,600,000

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### OPERATING (barrels daily)

	<u>1962</u>	<u>1961</u>
Gross Crude Production	134,700	124,300
Refinery Crude Runs	83,800	83,400
Sales of Crude and Products	203,100	197,400



## TO THE SHAREHOLDERS:

CONSOLIDATED NET EARNINGS for the year 1962 were \$26,800,000 equal to \$1.84 per share, compared with \$30,400,000 or \$2.09 per share for the year 1961. Gross sales and other revenue were up 2½ % but this higher gross income was more than offset by significant increases in foreign exchange adjustments and taxes.

Dividends were \$1.20 per share for the year, unchanged from the previous year.

**Producing** — Drilling continued through the year seeking to extend the Provincia field in Colombia. An important north extension was proved, although the field limits have not yet been determined. Gathering and pipeline facilities were built and the field was in commercial production in the last quarter of the year.

A discovery well was brought in during the year in Central Colombia on another block of acreage jointly held with another company. Evaluation of this find is being carried out.

In 1962 the Government of Colombia resumed the granting of petroleum concessions, suspended since 1957 while the Petroleum Code was being subjected to substantial revision. Last year the Company signed one new concession contract under the Petroleum Code as amended in 1961, and it expects to enter into additional petroleum concession contracts this year.

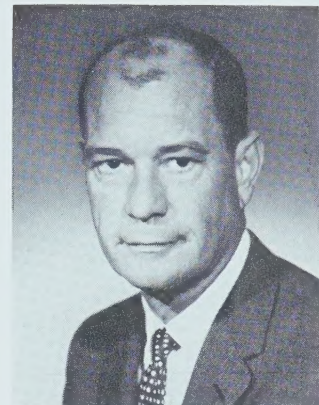
Both exploration and development drilling in Peru and Venezuela continued at about the levels of the previous year. Important additions to reserves in Western Venezuela justified addition of gathering and pipeline installations to permit moving these crudes to markets.

Production of crude in the three countries averaged 134,700 barrels per day, compared with 124,300 barrels per day in 1961.

**Refining**—Crude runs at Company owned refineries totaled 83,800 barrels per day. The capacity of the Cartagena refinery which was increased to 35,000 barrels per day in 1962 will be further raised to 42,000 barrels per day in 1963 in order to meet the growing product demand in Colombia.

**Petrochemicals**—During the year International studied new potential projects for both Colombia and Peru. The Colombian affiliate also made its first move to import new lines of petrochemical products in bulk in order to take advantage of lower costs and improve its competitive position.

The ammonia and nitric acid plants in Cartagena, Colombia, began production early in 1963. Amoniaco del Caribe, S.A., a wholly-owned sub-



Milo M. Brisco







subsidiary of International, will sell all of its nitric acid production and, initially, approximately 60% of its ammonia output to an adjacent fertilizer plant, exporting the balance. The fertilizer plant of Abonos Colombianos, S.A., should be completed in April and will be capable, when operating at capacity, of producing about 200,000 tons of chemical fertilizers per year. International has a one-third equity in the fertilizer company.

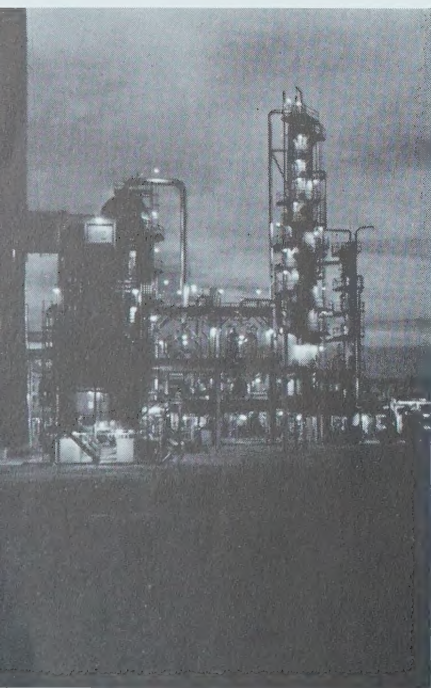
**Transportation** — A 33-mile pipeline connecting the Provincia producing field with Andian National Corporation's pipeline went into operation in September. The new line is jointly held with the other owners of the concessions which it serves.

Andian National Corporation's crude oil pipeline, extending from the interior of Colombia to an ocean terminal near Cartagena, operated below capacity until the Provincia pipeline was completed. With the completion of this new line and increased activity in the neighboring producing fields, total crude oil tenders are now above the capacity of the system.

Oleoducto del Pacifico, a products pipeline company in Colombia, in which International has an interest, started construction of a 100-mile extension from its Cali terminal to Cartago. The line should be completed by April of this year. Volumes handled in its existing system were up 6% over 1961.

**Marketing** — Sales of crude oil were 85,500 barrels per day, a small increase over the previous year, with prices remaining approximately the same.

Direct market sales of refined products in Colombia, Ecuador and Peru amounted to 73,200 barrels per day in 1962, or an increase of 5% over 1961.



**Peru** — Since July 1962, Peru has been governed by a Military Junta which early in its incumbency pledged itself to observe Peru's national and international obligations. Extremist elements in Peru have continued their attacks on the Arbitration Award of 1922, involving the governments of Great Britain and Peru. This award resolved a dispute primarily concerned with the tax status of the Company's oldest oil producing property in Peru. Since 1922, all the Governments of Peru have respected the dispositions of this Arbitral Award. On several occasions the Government has been advised that the Company believes a fair solution to the problem would be to bring this property under the provisions of the general Petroleum Law of 1952.

**Colombia** — On August 7, Dr. Guillermo Leon Valencia was inaugurated as President of Colombia for the 1962-1966 term. Dr. Valencia, a member of the Conservative party, is the second president to serve under Colombia's National Front System of coalition government.

Colombia devalued the peso in relation to the U.S. dollar just prior to year end. In early February of 1963, the Government authorized increases in prices of petroleum products which will partially offset the effect of this devaluation.



**Stock Offer** — Shareholders have been kept informed of developments following Esso Standard (Inter-America) Inc.'s offer to purchase outstanding shares of International. In July 1960, Esso Standard commenced an action against International for a declaration that it was entitled to acquire the shares held by those shareholders who had not made timely application to the Supreme Court of Ontario pursuant to the provisions of Section 128 of the Companies Act of Canada. In this action the Court, by order dated July 13, 1960, restrained International from paying dividends and from registering transfers or otherwise dealing with such shares until final disposition of timely applications.

The judgment of the Supreme Court of Canada on January 22, 1963, adverse to Esso Standard, finally disposed of such timely applications. On February 25, 1963, Esso Standard's action against International was dismissed and the dividends which had been withheld have been distributed to the shareholders entitled thereto. The Company's transfer agents were notified that it was in order to register transfers.

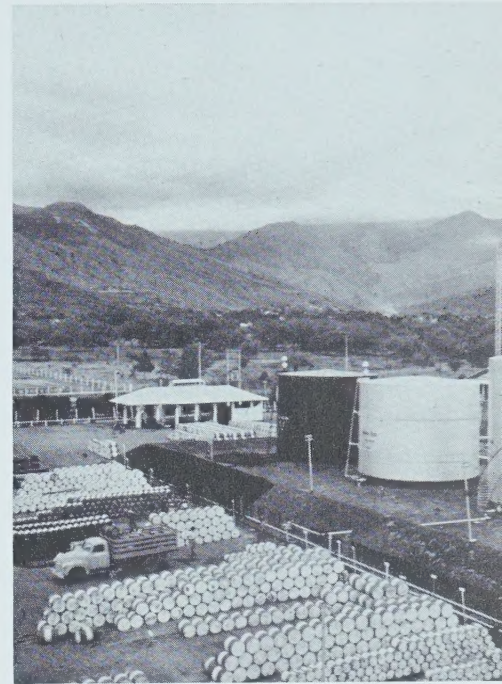
**Executive Changes** — On September 1, Mr. G. E. Wagoner retired as a Director after thirty-two years with the Company and its affiliates. At the same time Mr. J. K. Oldfield resigned as a Director. He continues as General Counsel of the Company. Effective September 14, the Board of Directors elected Mr. L. J. Brewer a Director and Executive Vice President and Mr. C. G. Morrison a Director and Vice President.

*For the Board of Directors*

*M. M. Brisco*

*April 1, 1963*

*President*





# FINANCIAL REVIEW

## NET INCOME AND DIVIDENDS

Consolidated net income for the year 1962 was \$26,800,000 equal to \$1.84 per share, as compared with \$30,400,000 or \$2.09 per share in 1961.

Dividends paid in 1962 were at the rate of \$1.20 per share, the same rate as in 1961. In 1962 dividend payments totaled \$17,500,000 and represented 65% of consolidated net income.

## REVENUE

Gross operating revenue including consumer taxes collected for governments was \$267,900,000 for the year 1962. This was an increase of \$6,100,000 or 2% more than in 1961. The sources of revenue for the two years were as follows:

	1962	1961
Sales of crude oil . . . . .	\$ 71,900,000	\$ 68,400,000
Sales of petroleum products, etc. . . . .	184,200,000	181,900,000
Transportation and other revenue . . . . .	11,800,000	11,500,000
Total . . . . .	<u>\$267,900,000</u>	<u>\$261,800,000</u>

Higher volume mainly accounted for the increase in revenue from crude oil sales. The destinations of the 1962 Venezuelan crude oil sales were: United States 15%, Canada 42%, Latin America 41%, and Europe 2%.

In 1961, petroleum product sales included \$8,200,000 under the Barranca Bermeja refinery contract which was terminated as of March 31, 1961. Excluding this revenue, the increase in sales of petroleum products in 1962 over 1961 was 6%, due mainly to higher volumes.

## COSTS AND OTHER DEDUCTIONS

Operating charges and other expenses excluding taxes were \$183,100,000 in 1962, representing an increase of \$5,800,000 or 3% as compared with 1961. The principal changes were:

	<i>Increase (Decrease)</i>
Purchases of crude oil . . . . .	(\$5,800,000)
Purchase of petroleum products and merchandise . . . . .	5,900,000
Exploration, operating and administrative expenses . . . . .	( 600,000)
Depreciation, depletion, amortization and retirements . . . . .	1,300,000
Foreign exchange adjustments . . . . .	5,100,000

The comparative decline in purchases of crude oil in 1962 was due mainly to the fact that in 1961 there were three months crude purchases up to termination of the Barranca Bermeja refinery contract. Offsetting the reduction in crude oil purchases were increased purchases of petroleum products and merchandise.

The change in depreciation, depletion and amortization was brought about by increased plant facilities and higher levels of production.

The change in foreign exchange adjustments arose almost entirely from operations in Colombia where the exchange rates in relation to the U. S. dollar weakened just prior to the year end.



## TAXES

Tax and other payments to governments totaled \$65,600,000 in 1962 compared with \$60,900,000 in 1961 as summarized below:

	<u>1962</u>	<u>1961</u>
Production taxes . . . . .	\$ 16,800,000	\$ 16,000,000
Consumer taxes . . . . .	9,800,000	9,400,000
Property, franchise and other operating taxes . . . . .	4,000,000	3,900,000
	<u>30,600,000</u>	<u>29,300,000</u>
Income and export taxes . . . . .	31,600,000	28,400,000
Import duties and miscellaneous taxes . . . . .	3,400,000	3,200,000
	<u>\$ 65,600,000</u>	<u>\$ 60,900,000</u>

The increase in production taxes reflected higher crude oil production in Venezuela.

Income and export taxes as compared with the previous year were higher due to a rise in taxable income in Venezuela and to a significant increase in tax rates in Peru.

## WORKING CAPITAL

Consolidated working capital at December 31, 1962 was \$134,300,000, an increase from the previous year end of \$3,700,000. The ratio of current assets to current liabilities improved to 3.8 from 3.6.

The following comparative summary shows the changes in working capital:

	<u>1962</u>	<u>1961</u>
SOURCE OF FUNDS:		
Net income . . . . .	\$ 26,800,000	\$ 30,400,000
Depreciation, depletion, amortization and retirements . . . . .	24,300,000	23,000,000
Accruals for annuities and service indemnities (net of payments) . . . . .	2,400,000	(600,000)
Proceeds from sales of property, plant and equipment . . . . .	1,200,000	1,600,000
Receipts from loans receivable and investments . . . . .	2,500,000	3,200,000
Other (net) . . . . .	(100,000)	700,000
Total . . . . .	<u>\$ 57,100,000</u>	<u>\$ 58,300,000</u>
DISPOSITION OF FUNDS:		
Additions to property, plant and equipment . . . . .	\$ 29,200,000	\$ 24,300,000
Miscellaneous investments . . . . .	6,700,000	2,500,000
Cash dividends \$1.20 per share . . . . .	17,500,000	17,500,000
Total . . . . .	<u>\$ 53,400,000</u>	<u>\$ 44,300,000</u>
INCREASE IN WORKING CAPITAL . . . . .	<u>\$ 3,700,000</u>	<u>\$ 14,000,000</u>



## PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment in 1962 amounted to \$29,200,000, an increase of \$4,900,000 over 1961. Shown for the first time under a separate caption are the expenditures for the Petrochemical department covering the construction of an ammonia and nitric acid plant at Cartagena, Colombia, by a wholly-owned subsidiary, Amoniaco del Caribe, S.A. The plant was completed at the year end and commenced operations in January 1963.

The additions and gross and net plant investments are shown by departments in the following table:

	<i>Additions</i>		<i>Plant Investment</i> <i>December 31, 1962</i>	
	<u>1962</u>	<u>1961</u>	<u>Gross</u>	<u>Net</u>
Producing . . . . .	\$ 16,500,000	\$ 14,600,000	\$411,600,000	\$140,300,000
Refining . . . . .	600,000	300,000	67,100,000	36,700,000
Petrochemical . . . . .	7,800,000	6,100,000	14,200,000	14,000,000
Marketing . . . . .	3,500,000	2,800,000	45,400,000	25,800,000
Pipeline . . . . .	600,000	500,000	34,700,000	5,500,000
Other . . . . .	200,000		1,000,000	600,000
Total . . . . .	<u>\$ 29,200,000</u>	<u>\$ 24,300,000</u>	<u>\$574,000,000</u>	<u>\$222,900,000</u>

In addition, exploration, leasing and dry hole costs amounting to \$7,300,000 were charged against income in 1962 compared with \$8,600,000 in 1961.

## MISCELLANEOUS INVESTMENTS

During 1961, the Company agreed to buy a one-third interest in Abonos Colombianos, S.A., a company formed for the manufacture and sale of chemical fertilizers. During 1962, International acquired 1,800,000 additional shares in this company, at a cost of \$2,050,000 bringing total holdings at December 31, 1962 to 2,500,000 shares or one-third of the total shares outstanding. Further financing of this company is outlined under the section Commitments and Long-Term Leases in the Notes to Financial Statements. The fertilizer plant, which is located at Cartagena, Colombia, is nearing completion.

During 1962, International acquired the equivalent of \$3,730,000 of 10% tax exempt sol treasury bonds issued by the Peruvian Government. These bonds, the last of which matures in 1967, may be used as they mature in payment of the Company's tax obligations in Peru.

Also, during the year, a subsidiary of International purchased the equivalent of \$860,000 in long-term housing and construction bonds in bolivars issued by Venezuelan financial institutions.

## EMPLOYEES' ANNUITIES AND SERVICE INDEMNITIES

The accrued liability for annuities was \$39,800,000 and for service indemnities \$16,000,000 as of the year end 1962. The liability for annuities represents the dollar equivalent of accruals, less payments, for pensions payable in local currencies to employees pursuant to existing social laws and company plans. Service indemnities are payable to employees, based on length of service in accordance with the laws of the respective countries.



## AUDITORS' REPORT

TO THE SHAREHOLDERS OF  
INTERNATIONAL PETROLEUM COMPANY, LIMITED:

We have examined the consolidated balance sheet of International Petroleum Company, Limited and subsidiary companies as at December 31, 1962 and the related consolidated statements of income and retained earnings for the year then ended, and have obtained all the information and explanations which we required. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1962 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.  
*Chartered Accountants*

55 Yonge Street  
Toronto 1, Canada  
March 1, 1963



**International Petroleum Company, Limited***and Subsidiary Companies***CONSOLIDATED BALANCE SHEET** *(Stated in United States Dollars)***ASSETS**

	<i>December 31</i>	
	<u>1962</u>	<u>1961</u>
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 9,576,662	\$ 5,590,811
Marketable securities at market value (less than cost) . . . . .	1,186,471	2,022,622
Accounts and notes receivable—		
Interest-bearing demand deposit with Standard Oil Company		
(New Jersey) . . . . .	111,336,890	109,974,887
Trade and other, less doubtful accounts . . . . .	28,813,634	29,984,111
Inventories—		
Crude oil, petroleum products and other merchandise . . . . .	14,837,342	15,232,245
Materials and supplies . . . . .	17,271,584	17,306,674
	<u>183,022,583</u>	<u>180,111,350</u>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost . . . . .</b>	<b>574,002,853</b>	<b>552,957,299</b>
Less—Depreciation, depletion and amortization . . . . .	<u>351,127,564</u>	<u>333,286,030</u>
	<u>222,875,289</u>	<u>219,671,269</u>
<b>OTHER ASSETS:</b>		
Long-term loans and deposits . . . . .	1,980,933	3,055,335
Miscellaneous investments, at cost or less . . . . .	7,677,300	2,370,048
Prepaid and deferred charges . . . . .	1,826,367	1,260,862
	<u>\$417,382,472</u>	<u>\$406,468,864</u>

The Notes to Financial Statements on page



## LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1962	1961
CURRENT LIABILITIES:		
Notes and loans payable . . . . .	\$ 4,016,587	\$ 3,838,230
Accounts payable and accrued liabilities . . . . .	29,425,551	27,044,820
Estimated income taxes payable . . . . .	15,278,821	18,625,061
	<u>48,720,959</u>	<u>49,508,111</u>
EMPLOYEES' ANNUITIES AND SERVICE INDEMNITIES . . . . .	55,818,819	53,445,816
EQUITY OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANIES .	389,209	419,491
SHAREHOLDERS' EQUITY:		
Capital Stock:		
Authorized — 39,800,000 shares of no nominal or par value		
Outstanding — 14,570,983 shares . . . . .	102,288,799	102,288,799
Retained earnings (see accompanying statement) . . . . .	210,164,686	200,806,647
	<u>312,453,485</u>	<u>303,095,446</u>
APPROVED ON BEHALF OF THE BOARD:		
M. M. Brisco, <i>Director</i>		
W. C. Kirkpatrick, <i>Director</i>		
	<u>\$417,382,472</u>	<u>\$406,468,864</u>



# International Petroleum Company, Limited

and Subsidiary Companies

## CONSOLIDATED INCOME STATEMENT

(Stated in United States Dollars)

	For the Year Ended December 31	
	1962	1961
REVENUE:		
Sales and services, including consumer taxes of \$9,839,096 in 1962 and \$9,422,172 in 1961 . . . . .	\$267,935,388	\$261,786,947
Interest and other revenue . . . . .	4,217,801	3,669,439
	<u>272,153,189</u>	<u>265,456,386</u>
COSTS AND OTHER DEDUCTIONS:		
Purchases of crude oil, petroleum products and other merchandise, including transportation costs . . . . .	96,277,328	96,207,863
Exploration, operating and administrative expenses . . . . .	61,518,574	62,119,868
Depreciation, depletion, amortization and retirements . . . . .	24,263,639	23,038,526
Foreign exchange adjustments . . . . .	1,080,128	(4,067,915)
Taxes other than income and export taxes (see page 7) . . . . .	30,578,214	29,252,113
Provision for income and export taxes . . . . .	31,556,820	28,414,686
Income applicable to minority interests . . . . .	35,267	53,688
	<u>245,309,970</u>	<u>235,018,829</u>
NET INCOME . . . . .	<u>\$ 26,843,219</u>	<u>\$ 30,437,557</u>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS (Earned Surplus)

(Stated in United States Dollars)

	For the Year Ended December 31	
	1962	1961
Balance January 1 . . . . .	\$200,806,647	\$187,854,270
Net income for the year . . . . .	26,843,219	30,437,557
	<u>227,649,866</u>	<u>218,291,827</u>
Dividends paid . . . . .	17,485,180	17,485,180
Balance December 31 . . . . .	<u>\$210,164,686</u>	<u>\$200,806,647</u>

The Notes to Financial Statements on page 13 are an integral part of these statements.



## NOTES TO FINANCIAL STATEMENTS

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### Subsidiary Companies

The accounts for all subsidiaries whose outstanding voting shares were owned more than 50 per cent have been included in the consolidated financial statements. The principal operating subsidiaries are Esso Colombiana, S.A., International Petroleum (Colombia) Ltd., Andian National Corporation, Ltd., Compania Peruana de Gas, S.A., and Amoniacos del Caribe, S.A.

### Foreign Exchange

The salient features of the procedure followed, in general, in translating foreign currency accounts into dollars are: (1) inventories at rates prevailing when acquired, other current assets and current liabilities at year end rates, (2) property, plant and equipment, and permanent investments at rates prevailing at acquisition; depreciation, depletion, amortization and retirements at amounts based on such dollar costs of these properties, (3) reserves for employees' annuities and service indemnities at rates prevailing when provided, and (4) local currency revenue and costs at average monthly rates. Foreign exchange differences which arose as the result of the application of the foregoing procedure have been included in consolidated net income.

### Inventories

The last-in, first-out method was applied to determine the cost of crude oil and petroleum products. The replacement cost of these inventories was substantially greater at December 31, 1962. Other merchandise and materials and supplies were carried at cost or less.

### Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of undeveloped concessions is capitalized and no amortization is provided thereon until production is obtained. If undeveloped acreage is surrendered, the

cost is charged to income.

Leasing and exploration costs, including lease rentals and dry holes, are charged to income currently.

Depreciation, depletion and amortization are charged to income over the estimated useful lives of the related assets by application of either the unit-of-production or the straight-line method, as appropriate. Estimated commercially recoverable oil reserves are used in arriving at the rates for unit-of-production depreciation and depletion.

### Restricted Earnings

Retained earnings include a statutory reserve of \$1,317,391 not available for dividends.

### Commitments and Long-Term Leases

During 1962, International and a non-affiliated company jointly and severally guaranteed a maximum \$3,000,000 loan obligation contracted by Abonos Colombianos, S.A., a Colombian fertilizer company. Abonos Colombianos had drawn \$2,000,000 of this loan at year-end 1962. In 1961, International committed itself under certain circumstances to increase its shareholdings in Abonos Colombianos and at the end of 1962 the remaining obligation amounted to the equivalent of approximately \$450,000.

A subsidiary of International had outstanding commitments to purchase, in bolivars, the equivalent of \$1,185,000 of Venezuelan long-term housing and construction bonds.

At December 31, 1962, the companies had 112 leases expiring more than three years after that date covering a tanker and real and other properties. The minimum rentals applicable to these leases for the year 1963 are estimated at \$360,000 on which the average life is approximately 10 years.

### Counsel Fees and Executives' Salaries

Counsel and solicitors' fees and salaries of executive officers, including salaries of directors, amounted to \$537,022 in 1962.





**International Petroleum Company, Ltd.**